

B.C.'s revitalized railway gets ready to roll

CN's \$1-billion investment will boost the northern economy, creating wide-ranging economic spinoffs throughout the province

Ask Don Krusel how the Prince Rupert economy has fared over the last few years and he momentarily sounds forlorn. "It's been dreadful," says the president and CEO of the Prince Rupert Port Authority. "We've been in the eye of an economic storm. Our economy was built on forestry, fishing and transportation. They've done so badly that our population dropped from 16,000 to 12,000 over the last three years. But now it's turning around. Part of that's due to the favourable impact of the railway deal."



Prince Rupert's Fairview terminal: Now relatively quiet, activity will soon be booming as Fairview becomes the north's container-shipping port. (Photo courtesy of the Prince Rupert Port Authority)

The "deal" is the \$1-billion BC Rail Investment Partnership, approved by the Federal Competition Bureau on July 2. Much criticized in the south, the investment promises to boost northern development, improve air, rail and seaport facilities, speed connections to markets across North America and the world, and create economic spinoffs throughout the province. CN's billion-dollar cash infusion promises wide-ranging advantages.

Krusel predicts tremendous benefits from one aspect alone -- a containerized shipping facility for Prince Rupert. "The impact of this facility on northern B.C. will be greater than the impact of 2010 on the Lower Mainland," he says.

The partnership commits \$17.2 million from the province and up to \$15 million from CN to convert Prince Rupert's Fairview docks to a containerized terminal. In addition, Krusel says, the terminal operator will invest another \$25 million to \$30 million.

“That is the big news,” he says. “It’s very significant for the northern half of the province. Without containerization it’s very difficult for northern businesses to get into value-added manufacturing.”

He points out that a veneer company in Terrace isn’t operating because its product has to be shipped in containers, which currently means the prohibitive expense of trucking to Prince George and Vancouver. Containerization will also open up modular home manufacturing for the Chinese and Japanese markets, and similar opportunities for producers of wood flooring and window frames, he says.

As for the old BC Rail, Krusel refers to it as “a trade barrier.” He says BC Rail charged prohibitive prices to switch cargo to CN, preventing northerners from using their own seaport. “A manufacturer looking out his window might see the CN tracks leading to Prince Rupert. But he was basically a captive customer of BC Rail. BC Rail would add a switching charge above the CN price to make it cheaper to ship through Vancouver. BC Rail inhibited natural business and transportation links. This deal has improved competitive shipping options for producers in the Prince George area.”

About 430 job losses are expected, with some 250 employees expected to take early retirement and another 180 leaving through attrition or severance.

But Krusel maintains that job losses will be more than offset by gains. In Prince Rupert alone, he estimates 120 person-years of work to build the container facility and 200 to 250 full-time, ongoing longshoring jobs to follow. Value-added manufacturing will add more jobs, while increased rail traffic will require more CN operating crews and maintenance staff.

“The tide has changed,” Krusel says optimistically. “The investment is changing the economic fortunes of this region.”

Prince George mayor Colin Kinsley echoes that enthusiasm. He says that apart from the spinoffs there might even be a net gain in railway jobs. “This deal is really big for Prince George,” he says.

His city will house CN’s new B.C. North Division headquarters as well as a \$1-million state-of-the-art wheel shop to service the railway’s western Canadian operations. CN will also bring new locomotive and freight car repair work to the city.

Prince George Airport will get \$4 million from the province for terminal and runway improvements. Kinsley hopes to see international air passenger and cargo traffic, as well as third-party passenger rail service.



Don Krusel: BC Rail operated like a trade barrier. (Prince Rupert Port Authority)

Like Krusel, Kinsley is no fan of the Ancien Regime. “There was a real problem with BC Rail a few years ago,” he says. “We couldn’t get enough cars for lumber. We originally shipped 80 per cent of our lumber by rail and 20 per cent by truck. Because of BC Rail we had to reverse those figures.” CN’s commitment of 600 new railcars will improve the system’s capacity. In addition, CN will take over infrastructure and car maintenance, saving the province \$40 million annually over the 90-year partnership term.

“There will also be an immediate reduction in shipping costs,” says Kinsley.

Critics, he says, claim that BC Rail had overcome its problems and was turning a profit. “But that wasn’t a profit, it was an operating surplus. They weren’t re-investing. They were ripping up track and laying people off. BC Rail kept cutting service and upping their prices. Their operating surplus couldn’t manage their debt.”

The \$1-billion investment will eliminate BC Rail’s \$500-million debt, saving an annual \$30 million in interest payments.

Kinsley served on a mayors’ conference that studied BC Rail’s revitalization. “We wanted the partnership to benefit four areas: community, competition, sustainability and growth. All those things were met in the new partnership.”

CN’s 60-year lease will come with a 30-year renewable option, Minister of Transport Kevin Falcon says. “Government will decide whether it wishes to continue the lease at the end of the 90 years or go back to operating a railway.” At that point the province and CN may negotiate further 60-year leases.

While the evaluation process has been criticized, its decision was vetted by Charles River and Associates, the internationally known financial consulting firm.

Besides opening up the Prince George-Prince Rupert corridor, revitalized service will cut travel time from Prince George to Vancouver by 30 per cent, and knock two entire days off a trip to Chicago, the continent's railway hub. As a result, B.C. products will find easier access to North American markets.

The D'Arcy-Lillooet and Takla shuttles will remain in service, while CN plans to re-open the Dawson Creek-Hythe line to carry grain from the Peace River region.

Another \$135 million will kick-start the Northern Development Initiative, providing investments in forestry, pine beetle recovery, transportation, tourism, mining, Olympic opportunities, small business and sustainable economic development. On top of that, \$15 million will go to the BC Rail First Nations Benefits Trust.

Several cities and towns will see increased revenue, as CN forks over some \$8.3 million in municipal taxes, a substantial increase over the \$1.8 million that BC Rail paid in lieu of taxes. Over a 90-year period, communities en route would gain close to \$800 million in new property taxes.

But the main benefits might derive from economic diversification. Speaking of wide-ranging advantages to the northern economy, Krusel says, "We'll no longer be hewers of wood and drawers of water."